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The roller coaster ride that began the first half of the year has continued during the third quarter. Both the S&P 500 index (S&P) and the Dow Jones Industrial Average (DJIA) set lows for the year in mid-June and then exploded to the upside by over 9% each to close the 3rd quarter solidly in the plus year-to-date 8.5%, and 9%, respectively. (Both averages have continued to do well since the quarter end with the DJIA breaking its previous all-time high record and hovering around the 12,000 mark; the S&P 500 index has also done well, setting new 5 year highs, but remains over 11% short of its all-time high).

The news of the quarter continues the refrain from recent months: Federal Reserve interest rate policy, changes in oil prices, unsettled international news, concerns about housing weakness and the economy. While the trends bobble up and down, the topics are much the same.

What hasn't changed is my strategy – to buy good companies for less than their intrinsic net worth. In fact, I took advantage of the price weakness in June and July to add to several positions.

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With this letter, I am starting a new segment in which I discuss some of the factors used to invest your money. I hope you find this interesting. Further, your questions and comments on this letter or any other investment subject are always welcomed.

A question that I sometimes get asked is "what is your investment strategy this year?" The answer is quite simple, "To buy good companies for less than their intrinsic net worth." Usually the questioner persists with something like, "Yes, but what if (fill-in the blank with your favorite economic problem du jour) occurs?"

In my decades of investing, I have seen economic trends come and go. One minute, the economy is doing well and next it is in a recession. As a long-term investor, such trends, while interesting, do not affect my decisions. Rather, I look for companies that will do well both in good and bad economic times.

For example, consider a recent purchase, W. R. Wrigley & Co. makers of Juicy Fruit and many other popular chewing gums. How will Wrigley do if the economy goes into a recession? Will people consume less chewing gum? First of all, this is a trick question since it implies that the recession occurs in the United States. While the company does not break out its U.S. sales, we do know that in 2005, 63% of Wrigley's sales occurred <u>outside</u> of North America (Wrigley sells its products in over 180 countries.). Secondly, with the exception of the developing world, I feel confident that a recession in most countries would not have a significant impact upon gum sales. In short, when investing for the long-term, the best companies are those that will prosper regardless of the economic climate. By investing in such companies, I don't have to predict economic trends. What do I worry about when examining a company as a potential investment? That is the subject of my next investor commentary in January.

Thank you for your continued confidence. Have a great fall.

Brad

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